Pinnacle BNY Mellon Global Infrastructure Yield Fund

July 2019

About Us

The Pinnacle BNY Mellon Global Infrastructure Yield Fund invests in companies that demonstrate high, sustainable dividend yields and dividend growth potential, solid business momentum at an attractive valuation, quality, stability and strong cash flows. The Fund aims to deliver better capital preservation characteristics than the index, with up-market capture strong enough to translate into compelling risk-adjusted returns. It seeks to execute on a rigorous risk-management process that strives to limit macro risk exposures to ensure the vast majority of performance is derived from stock-specific risk.

Fund Performance to 31 July 2019

	Fund[1]	Benchmark[2]	Excess
1 month (%)	1.85	-0.24	2.09
3 months (%)	2.78	3.79	-1.01
6 months (%)	9.47	13.91	-4.44
Inception (%)[3]	8.91	15.08	-6.17

[1] Pinnacle BNY Mellon Global Infrastructure Yield Fund
[2] Benchmark is the S&P Global Infrastructure Index (Net) Unhedged
[3] Inception date is 9 August 2018
Past performance is not a reliable indicator of future performance

Market Commentary

Performance Review

The portfolio significantly outperformed the S&P Global Infrastructure Index on an unhedged basis during the period. The Energy and Utilities sectors contributed positively to relative returns while the Communication Services and Real Estate sectors detracted.

Outlook

During the month of July, the asset class experienced volatility. The portfolio outperformed its benchmark as some of the higher momentum segments of the asset class succumbed to rotation. The first half of 2019 for the infrastructure asset class was marked by exceptional performance which was driven by oil and commodity price recovery as well as a cyclical recovery in the most bond proxy sensitive parts of infrastructure as the US 10-year rate collapsed as well. Specifically, energy, toll roads, and airports benefited from the declining 10-year rate. However, after such a meaningful pullback in rates, the strategy should benefit from its defensive, above peer yield-oriented exposure. As the global macro backdrop remains uncertain, an ongoing rotation in the asset class to lower valued, attractive yield opportunities bodes well for our portfolio positioning.

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Investment Environment

Equity markets moved higher in the US and fell internationally in July. Among major benchmarks, the Standard & Poor's (S&P) 500® Index rose 1.44% followed by the MSCI Emerging Markets Index, which declined 1.14%. Finally, the MSCI EAFE Index, a measure of non-US developed markets, fell 1.27%.

In the US, the Federal Reserve (Fed) cut interest rates for the first time since 2008. Fed Chairman Jerome Powell cited a mid-cycle adjustment and justified the cut by citing muted inflation pressures and the impact of global developments on the economic outlook. Inflation picked up slightly but remained below the Fed's 2% goal. Despite an earlier selloff, US stocks rallied on the news, and consumer sentiment and consumer confidence advanced along with the US dollar. Yields were higher in the short part of the curve including the 2-year and 5-year but relatively unchanged in July with longer terms including to 10-year and 30-year.

Among developed markets, Boris Johnson was elected Conservative Party leader and appointed UK Prime Minister, taking over for Theresa May. UK inflation held steady, while Eurozone annual inflation fell slightly and remained below the European Central Bank's (ECB's) 2.0% target. During the month, the ECB hinted at preparing stimulus measures to boost growth and inflation. Meanwhile, the Bank of Japan kept rates steady and messaged commitment to easing further if inflation falls.

Emerging markets fell in July in the midst of continued US-China trade discussions. China's official manufacturing PMI remained in contraction territory at 49.7 as manufacturing activity was muted due to sluggish demand in China and abroad amid continued trade tensions.

Commodities slid 1.39%, as measured by the Thomson Reuters Core Commodity CRB Index. Oil prices, specifically, fell as the Fed signaled that its recent rate cut was not the start of an extended cut cycle. Concerns over falling demand exacerbated the decline.

Sector Review

Energy: The sector led relative performance during July. Canadian mid-stream pipeline group Inter Pipeline, the portfolio's largest position, led performance. Additionally, the sustainability of the company's compelling dividend yield of 7.7% was reinforced with their July 2019 cash dividend announcement. Lack of exposure to index heavyweight Enbridge, which declined, also bolstered relative performance as the company represented 4.5% of the Index.

Utilities: Recent portfolio addition Edison International, a California-based electric utility group, rallied after passage of key wildfire legislation in the state. The group announced that they received precertification from the state regulator under the new legislation which effectively identified them as a prudent operator and led to the spike in share price.

Real Estate: The portfolio absorbed a slight headwind from Real Estate exposure with the elimination of a small position in private prison operator GEO Group which underperformed during the month. Ongoing negative sentiment related to their US southern border detention-center business, along with headline risks associated with large bank institutions backing away from conducting business with the sector, weighed on the shares.

Communication Services: The strategy's off-benchmark exposure to telecommunication infrastructure holdings weighed on performance during the period with aggregate positions down around 2% French telecommunications operator Orange fell as investors remained cautious about the group's Spanish business ahead of second quarter earnings results released at the end of the month. Orange delivered strong figures overall and exceeded French revenues and margins expectations. The company should benefit from lower capital expenditures after hitting their cycle peak in 2018.

Positioning Changes

Key Buys

National Grid (UK): The portfolio purchased shares of UK-based electric utility National Grid as sentiment around the RIIO2 regulatory process implied an overly draconian outcome. Based on discussions with the company and recent commentary from the regulator, expectations point to supportive updates on the process going forward.

Key Sells

Beijing Capital International Airport (China): We continued to hold a position in the Chinese airport operator following the transition plan announced by the Civil Aviation Administration of China earlier in the year, as we felt the stock didn't properly value the strong traffic growth in the market. We became more skeptical of the growth outlook, corroborated by recent data points, and eliminated the position and reallocated to more favorable risk-adjusted opportunities.

Enagas (Spain): We sold shares of Enagas as over concern about the company's pending regulatory review. Subsequently, the regulator posted their initial opinion which presented an even more challenging framework for Enagas than our initial expectations.

GEO Group (USA): We sold our remaining minor position in private prison operator GEO Group during the month. As a government contractor, the company aims to provide a social service to state and federal governments at a lower cost to taxpayers while maintaining similar levels of service found in the public sector. With the upcoming 2020 election and media focus on the US southern border and the immigration crisis, the stock declined over negative sentiment related to their detention center business division.

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Fund Name	Pinnacle BNY Mellon Global Listed Infrastructure Yield Fund
Fund Structure	Registered Managed Investment Scheme
Responsible Entity	Pinnacle Fund Services Limited
Investment Manager	BNY Mellon Investment Management Australia Ltd
Benchmark	S&P Global Infrastructure Index (Net) Unhedged
Return objective	Returns above the Benchmark over a full cycle
Yield objective	Gross yield target of 6% per annum
Distributions	Paid quarterly
Portfolio allocation	Global equities 95-100% / Cash 0-5%
Stock numbers	Approximately 20 to 40 securities
Target investment timeframe	Full cycle 5 years or more
Derivatives	None
Borrowing to invest	Not permitted
Management fee	1.15% p.a.
Performance fee	Nil
Minimum initial investment	$25,000

For further information, please visit
http://www.pinnacleinvestment.com/funds/pni/global-infrastructure-yield/
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